AmRest Holdings, S.E. and subsidiaries

Consolidated Annual Accounts

31 December 2018

Consolidated Directors' Report

2018

(With Independent Auditor's Report Thereon)

KPMG Auditores, S.L.
Paseo de la Castellana, 259 C
28046 Madrid

Independent Auditor's Report on the Consolidated Annual Accounts

To the shareholders of AmRest Holdings, S.E.

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of AmRest Holdings, S.E. (the "Parent") and subsidiaries (together the "Group"), which comprise the consolidated balance sheet at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts in Spain pursuant to the legislation regulating the audit of accounts. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverable amount of non-current assets subject to amortisation or depreciation See notes 6, 14 and 15 to the consolidated annual accounts	
Key audit matter	*How the matter was addressed in our audit*
At 31 December 2018, the Group has recognised property, plant and equipment and intangible assets with a finite useful life amounting to Euros 501 million and Euros 81 million, respectively, as well as goodwill and trademarks, both with an indefinite useful life, in amounts of Euros 369 million and Euros 160 million, respectively, which have been allocated to the pertinent cash-generating units (CGUs) or groups of CGEs. For the purposes of evaluating impairment, each establishment constitutes a cash-generating unit. In this regard, intangible assets (primarily trademarks) and goodwill have been allocated to a significant portion of the CGUs. There is a risk that the carrying amount of the CGUs may exceed their recoverable amount in those establishments or groups of establishments that have seen a decline in the number of customers. Factors such as investments in fixed assets in each establishment, competition or promotional and marketing activities affect the number of customers. The Group calculates the recoverable amount of goodwill and trademarks with an indefinite useful life and tests property, plant and equipment and intangible assets with a finite useful life for indications of impairment at least on an annual basis, for the purpose of determining their recoverable amount. These recoverable amounts are calculated by applying valuation techniques which require the exercising of judgement by the Directors and Management and the use of estimates. Due to the high level of judgement, the uncertainty associated with these estimates and the significance of the carrying amount of the non-current assets, this has been considered a key audit matter.	Our audit procedures included the following: – Assessing the design and implementation of key controls related to the process of estimating the recoverable amount of goodwill, trademarks with an indefinite useful life and other non-current assets with a finite useful life. – Assessing the criteria used by the Directors and Group Management when identifying indications of impairment in property, plant and equipment and intangible assets with a finite useful life, other than goodwill and trademarks which have an indefinite useful life. – Assessing the methodology and assumptions used to estimate the recoverable amount, by determining the higher of value in use and fair value less costs to sell, based on discounted cash flows at cash-generating unit level, with the involvement of our valuation specialists. – Comparing the cash flow forecasts estimated in prior years with the actual cash flows obtained. – Contrasting the information contained in the model used to calculate the recoverable amount with the Group's business plans approved by management. – Analysing the sensitivity of the estimated recoverable amount to changes in the relevant assumptions and judgements, such as the discount rate, the business assumptions and the expected future growth rate in perpetuity. – We also assessed whether the information disclosed in the consolidated annual accounts meets the requirements of the financial reporting framework applicable to the Group.

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Business combinations See note 6 to the consolidated annual accounts	
Key audit matter	*How the matter was addressed in our audit*
In 2018, the Group concluded its purchase price allocation for the different business combinations described in note 6 to the accompanying consolidated annual accounts. These transactions were established as business combinations pursuant to IFRS 3. Moreover, on 26 July 2018 the Group acquired the business of the Sushi Shop Group from an unrelated third party. As a result of this transaction and in accordance with the applicable financial reporting framework, the Group has recognised goodwill amounting to Euros 150 million, calculated as the difference between the fair values of the assets and liabilities acquired and the price paid in the business combination. The accounting of this transaction was complex and required the application of value judgements in identifying and determining the fair value of the assets and liabilities acquired. This and all the other transactions conducted in 2018 have been recognised provisionally. We consider that these transactions are a key audit matter due to their significance, the inherent judgement involved in making fair value estimates, and the impact on the consolidated annual accounts.	Our audit procedures included analysing a sample of acquisitions made during the year in terms of quantitative and qualitative factors. The sample selected encompassed the acquisitions having the greatest impact on the Group's financial results, and those involving the highest level of value judgements. For each acquisition: – we queried the main methods and assumptions used by the Group to identify the assets and liabilities acquired and determine their fair values. We discussed these with the Group and corroborated the explanations given, comparing these assumptions with market data, our previous experience of similar transactions and the Group's business plan that supports the acquisition; – where available, we contrasted the amounts recognised with supporting documentation or correspondence from external sources; – we analysed the appropriateness of the recognition of the significant fair value adjustments in subsequent periods by reference to the standard on accounting for acquisitions, as well as the presentation and disclosure of material adjustments to the financial statements and the analysis of the impact of restating the opening balances for 2017 at the annual deadline for recognising business combinations; and – we analysed the appropriateness of the disclosure of these transactions in the consolidated annual accounts.

Tax inspections relating to value added tax See note 12 to the consolidated annual accounts	
Key audit matter	*How the matter was addressed in our audit*
The subsidiary AmRest Sp. z o.o. is currently undergoing several tax inspections, which are at different stages, in relation to value added tax for 2012 to 2018. The identification and evaluation of these tax risks requires significant judgements by the Directors in relation to, inter alia, determining the forecast outcome of the inspections and their quantification for the purpose of recognition and disclosure in the consolidated annual accounts, where applicable, in accordance with the requirements of the financial reporting framework applicable to the entity. Due to the judgement inherent in assessing these different matters, the uncertainty associated with the estimates relating to the ongoing tax proceedings, and their potential impact on the consolidated annual accounts, this has been considered a key audit matter of the current period.	Our audit procedures included evaluating and discussing with the Company the process of measuring the probability of success in these cases and the extent of the potential loss, reviewing the legal documentation used by the Directors and analysing the conclusions reached. Furthermore: - We obtained confirmation from the Company's tax advisor, and the corresponding documentation from the auditor of the Company's component, regarding the expert's conclusions. - We assessed the risk and the factors influencing the possible recognition of a provision for the aforementioned lawsuits based on the financial reporting framework applicable to the entity. - Moreover, we consulted the specialists of the component's auditor to complete our assessment of the arguments put forward by the entity and its advisors regarding the legal proceedings. - We also evaluated whether the information disclosed in the notes to the consolidated annual accounts in this regard is appropriate, in accordance with the criteria set out in the financial reporting framework applicable to the entity.

Other information: Consolidated Directors' Report

Other information solely comprises the 2018 consolidated directors' report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility as regards the content of the consolidated directors' report is defined in the legislation regulating the audit of accounts, which establishes two different levels:

a) A specific level applicable to the consolidated non-financial information statement, as well as certain information included in the Annual Corporate Governance Report, as defined in article 35.2. b) of Audit Law 22/2015, which consists solely of verifying that this information has been provided in the consolidated directors' report, or where applicable, that the consolidated directors' report makes reference to the separate report on non-financial information, as provided for in legislation, and if not, to report on this matter.

b) A general level applicable to the rest of the information included in the consolidated directors' report, which consists of assessing and reporting on the consistency of this information with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned accounts and without including any information other than that obtained as evidence during the audit. Also, assessing and reporting on whether the content and presentation of this part of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have verified that the information referred to in a) above has been provided in the consolidated directors' report, that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2018, and that the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit Committee's Responsibility for the Consolidated Annual Accounts

The Parent's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's audit committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.
- Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the Parent regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's audit committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the audit committee of the Parent, we determine those that were of most significance in the audit of the consolidated annual accounts of the current period and which are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee of the Parent

The opinion expressed in this report is consistent with our additional report to the Parent's audit committee dated 28 February 2019.

Contract Period

We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 6 June 2018 for a period of three years, from the year ended 31 December 2018.

KPMG Auditores, S.L.
On the Spanish Official Register of Auditors ("ROAC") with No. S0702

Carlos Peregrina García
On the Spanish Official Register of Auditors ("ROAC") with No. 15.765

28 February 2019

AUDITORES
INSTITUTO DE CENSORES JURADOS DE CUENTAS DE ESPAÑA

KPMG AUDITORES, S.L.

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